

**BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA**

DOCKET NO. 2017-292-WS

In the Matter of)
)
Application of Carolina Water Service,)
Inc. for an Adjustment of Rates and)
Charges and Modifications to Certain)
Terms and Conditions for the Provision of)
Water and Sewer Service)

**REHEARING DIRECT TESTIMONY
OF
ROBERT M. HUNTER**

1 **Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.**

2 **A.** My name is Robert M. Hunter. I am the Financial Planning and Analysis Manager for
3 Carolina Water Service, Inc. ("CWS" or "Company"). My business address is 150 Foster Brother
4 Drive, West Columbia, SC 29172.

5 **Q. DO YOUR DUTIES INVOLVE RATE DESIGN FOR CWS?**

6 **A.** Yes. My duties include rate design for CWS. In this case, I calculated the rates requested
7 in the Company's Application filed on November 10, 2017 and the rates resulting from the
8 Commission's order.

9 **Q. PLEASE DESCRIBE CWS' RATE STRUCTURE FOR WATER SERVICE**
10 **CUSTOMERS.**

11 **A.** CWS has two Water Service Territories. In each of the Service Territories we have Water
12 Supply Customers, who receive water supplied from wells that are owned and operated by the
13 Company, and Water Distribution Customers, who receive water purchased for distribution and
14 resale by CWS from a governmental body, agency, or other entity. Customers pay a Base Facilities
15 Charge ("BFC") that is set according to the size of their meter. The BFC is the same for Water
16 Supply Customers and Water Distribution Customers with the same meter size. Customers also

1 pay a Commodity Charge for the water they consume. The Commodity Charge for Water Supply
2 Customers is not the same as the Commodity Charge for Water Distribution Customers.

3 **Q. DO WATER SERVICE CUSTOMERS IN SERVICE TERRITORY 1 AND**
4 **SERVICE TERRITORY 2 PAY DIFFERENT RATES?**

5 **A.** Yes. They pay a different BFC and a different Commodity Charge.

6 **Q. HOW ARE RATES CALCULATED FOR CWS' WATER SERVICE**
7 **TERRITORIES?**

8 **A.** Each set of rates was calculated using the financial statements created for each Service
9 Territory to establish the cost of service along with revenue required to earn the allowed 10.50%
10 Return on Equity ("ROE"). For example, in Water Territory 1, my spreadsheet will calculate the
11 ROE using the Income Statement and Rate Base for costs specific to that Service Territory. Next,
12 it will calculate what percentage increase needs to be applied to the rates in Water Territory 1 to
13 produce revenues sufficient to earn 10.50% return on equity.

14 **Q. WHY DOES CWS HAVE DIFFERENT SERVICE TERRITORIES?**

15 **A.** The two Service Territories were approved in CWS' 2015 rate case. The CWS merger of
16 Southland Utilities, Inc. ("Southland"), Utilities Services of South Carolina, Inc. ("USSC") and
17 United Utility Companies, Inc. ("United") created rates for CWS and Southland that were
18 significantly lower than USSC and United. A total consolidation of the rates for the companies
19 would have resulted in significant rate increases for the legacy CWS customers. Therefore, the
20 Commission approved the two Service Territory structure for the Company's water customers.

21 **Q. PLEASE DESCRIBE CWS' RATE STRUCTURE FOR SEWER SERVICE**
22 **CUSTOMERS.**

1 A. Sewer service customers taking both sewer treatment and collection service and treatment-
2 only service in Service Territory 1 and Service Territory 2 pay the same rates.

3 **Q. PLEASE DESCRIBE WHAT YOU DID TO DESIGN THE RATES IN THIS**
4 **DOCKET.**

5 A. I created financial statements for the test year and applied any known and measurable
6 adjustments. This work was done to establish a unique cost of service for each of three Service
7 Territories. Using the financial statements created for each territory allows us to calculate the
8 current ROE that each Service Territory is earning. Next, I calculated the amount of incremental
9 revenue required in each Service Territory to earn the 10.50% ROE applied for and ultimately
10 granted by the Commission. Finally, using the same rate structure as approved in the prior rate
11 case, I adjusted the current BFC and Commodity Charge by applying a percentage increase to all
12 rates within each respective Service Territory to arrive at the revenue required to earn the
13 authorized 10.50% ROE.

14 **Q. PLEASE EXPLAIN HOW EACH SET OF RATES WAS CALCULATED.**

15 A. Each set of rates was calculated using the financial statements created for each Service
16 Territory to establish the cost of service along with revenue required to earn the allowed 10.50%
17 ROE. For example, in Water Territory 1, my spreadsheet calculates the ROE using the Income
18 Statement and Rate Base for costs specific to that Service Territory. Next, my schedule calculates
19 the percentage increase necessary to be applied to the rates in Water Territory 1 to produce
20 revenues sufficient to earn 10.50% return on equity.

21 **Q. CAN YOU FURNISH THE SPREADSHEET THAT YOU USED TO CALCULATE**
22 **THE RATES FOR CWS' PROPOSED ORDER?**

1 A. Yes, the spreadsheet, in the form of an Excel Workbook is attached to my testimony as
2 Exhibit DR-RMH-1. The rates sections of Exhibit DR-RMH-1 was previously submitted with
3 CWS' return to ORS' petition for rehearing, which was filed with the Commission on June 25,
4 2018.

5 **Q. PLEASE EXPLAIN EACH TAB IN THE WORKBOOK.**

6 A. I will break this down into sections because there are a significant number of tabs within
7 the workbook. Starting from the back and working towards the front of the workbook:

8 1) "Other" – Tabs under this section contain the results from the proof of revenues
9 exercise and customer count analysis. I use this data to establish the number of
10 customers in each rate class as well as the usage to apply for the Commodity Charge in
11 each rate class.

12 2) "Enter Data" – This contains the raw data pulled from our internal accounting system,
13 JDE. The data is pulled by business unit number. There are four business units in the
14 CWS system, 400, 401, 402 and 403. Water Service Territory 1 consists of business
15 units 400 and 402. Water Service Territory 2 consists of business units 401 and 403.
16 Sewer Service Territory encompasses all four of the business units. To create the
17 financial statements by Service Territory, I aggregate this data by business unit to
18 calculate the cost of service for that Service Territory.

19 3) "TB Organized" – These tabs simply organize the financial data to use throughout the
20 model.

21 4) "Work Papers" – The Test Year is adjusted based on certain known and measurable
22 changes. These sheets contain the backup for those adjustments made to the financial
23 statements.

- 1 5) "G-Avg. Bills" – Calculates the average bill and present and proposed rates.
- 2 6) "F-Cust. Growth" – Displays the customer count at the beginning and end of the Test
- 3 Year.
- 4 7) "D&E-Revenue" – Calculates the Test Year revenues and revenues at proposed rates.
- 5 8) "C-Rate Base" – Calculates the Rate Base and Rate of Return for each business unit
- 6 based on costs coded to each business unit.
- 7 9) "B-Income Statements" – Data is put into an Income Statement for each business unit
- 8 displaying the Test Year per books and the pro forma proposed figures.
- 9 10) "A-Balance Sheets" - Data is put into Balance Sheet for each business unit displaying
- 10 the total assets and liabilities.
- 11 11) "Exhibits to File" – This section establishes the cost of service for each Service
- 12 Territory needed to design rates for each customer class. It creates the same schedules
- 13 A, B, C, D, E, F and G described above for Water Service Territory 1, Water Service
- 14 Territory 2 and Sewer Service Territory. This is done by combining the tabs for
- 15 business units 400 and 402 into Water Service Territory 1, tabs for business units 401
- 16 and 403 into Water Service Territory 2, and the tabs for all business units into Sewer
- 17 Service Territory.
- 18 12) "Rate Design" – The rate design for each of the three Service Territories are on each of
- 19 the tabs in this section. This is where the calculations are made using the cost of service
- 20 for that Service Territory and the percentage increase in revenues required to earn the
- 21 allowed 10.50% ROE.
- 22 13) "Summary" – Summarizes at a high level the various revenue measures analyzed
- 23 throughout the workbook.

1 14) "Input Schedule" – This tab is used to input various assumptions that apply to the rate
2 case application being created.

3 **Q. DID YOU PROVIDE THIS SPREADSHEET TO THE ORS?**

4 **A.** Yes. I provided a spreadsheet supporting the rates proposed in the Application to the ORS
5 in response to its Utility Rates Request #8 on January 4, 2018. The spreadsheet attached as Exhibit
6 DR-RMH-1 supports the rates in CWS' proposed order which were authorized by the Commission
7 in Order No. 2018- 345(A).

8 **Q. CAN YOU DEMONSTRATE A CALCULATION USING THE SPREADSHEET,**
9 **AND IF SO, WOULD YOU PLEASE DO SO NOW?**

10 **A.** Yes.

11 **Q. DOES ONE WATER SERVICE TERRITORY SUBSIDIZE THE OTHER?**

12 **A.** No, neither Water Service Territory subsidizes the other. The rates for each Service
13 Territory are determined based on the cost of service for systems in that specific Service Territory.

14 **Q. WHY ARE THE WATER BFC AND COMMODITY CHARGES FOR WATER**
15 **SERVICE TERRITORY 1 LOWER THAN THOSE FOR WATER SERVICE**
16 **TERRITORY 2?**

17 **A.** The rate is lower in Service Territory I because of the specific characteristics of that Service
18 Territory. That includes the cost of service, rate base, customer size and volume consumption.

19 **Q. DOES CWS WISH TO MAINTAIN THE TWO SERVICE TERRITORY**
20 **STRUCTURE?**

21 **A.** For the time being, yes. Eventually, CWS would like all of its water customers to pay the
22 same rate, but it may take some time to achieve this goal. However, CWS has been able to
23 eliminate different rates for sewer rates furnished in the two Service Territories.

- 1 Q. DOES THIS CONCLUDE YOUR TESTIMONY?
- 2 A. Yes. Thank you for the opportunity to explain CWS' rate design.

EXHIBIT DR-RMH-1

Filed with the PSC on Flash Drive.